NORWEST CORPORATION

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ECONOMIC INDICATORS

CORPORATE ECONOMICS DEPARTMENT - DR. SUNG WON SOHN, CHIEF ECONOMIST DECEMBER 17, 1986

Fall 1986 Regional Economic Survey

Highlights

- Our 21st semiannual survey of the region's bankers suggests that adjustments are well underway to put agriculture back on more stable financial footing. However, the restructuring process is likely to continue for at least a few more years.
- Net farm income is somewhat improved in 1986, but a genuine economic recovery in agriculture is not expected for several years.
- Land prices are declining at a slower rate.
- The number of farmers going out of business has eased since our April survey.
- The reduction in farm debt has accelerated, but further reductions are necessary. Some banks have made considerable progress in restructuring farm operations, others have a way to go.
- Economic conditions remain relatively strong in the Twin Cities. Bankers are reasonably optimistic about 1987.
- The Iron Range economy has weakened since our April survey, while the recovery is continuing in other parts of northern Minnesota and Wisconsin.
- Conducted in mid November, this survey drew responses from more than 800 bankers in Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wisconsin.

Agricultural conditions

Income somewhat improved. Despite sharply lower crop prices, net farm income is somewhat improved in 1986 due to increased government subsidies, exceptional crop yields and higher livestock prices. Farm production costs are down due to lower fuel, fertilizer and chemical prices along with reduced use. Lower interest rates and reduced debt levels have also assisted farmers.

Bankers indicate that only 18 percent of their farm borrowers will experience negative cash flow this year; the median response was even lower. These figures show improvement from previous surveys. Farmers with little debt are making some money; however, those with heavy debt loads continue to lose ground. Hog and turkey producers are doing quite well.

Half of the agricultural bankers rated current economic conditions fair and 8 percent good, slightly more favorable responses than last spring. Another 36 percent classified local conditions poor and 7 percent very poor. The most positive appraisal came from dairy areas and the Red River Valley, which has been aided by profitable sugar beet prices and the presence of other specialty crops. Economic conditions appeared weakest in Montana and central North Dakota.

Three-fourths of the bankers expect no change in economic conditions during the next six months, while 21 percent expect further deterioration. This is a slightly more positive appraisal than last spring, nudging the agricultural bankers' confidence index upward for the second time in a row (see page 5). Nevertheless, the farm sector is not on firm ground yet. Bankers expect the farm economy to remain weak for several more years, taking its toll on agribusiness and mainstreet businesses. Bankers also note the heavy dependence of crop farmers on government subsidies for their survival. However, adjustments are well underway to put agriculture back on more stable financial footing.

Slower decline in land prices. According to the region's bankers, cropland prices are down about 10 percent from a year ago, half the rate of decline reported last spring. One-fourth of the bankers reported declines of 20 percent or more, while another one-fourth said land prices were down 6.5 percent or less.

At present, cropland prices are estimated to average about $1,000 per acre in Iowa. One-fourth of the Iowa bankers valued good cropland at $800 per acre or less; another one-fourth reported sales of $1,100 per acre or more. In grain-producing areas of Minnesota and Nebraska, good cropland was pegged at $600 per acre, with the lower quartile reporting land values in the $500 or less range and the upper quartile in the $800 plus range.

Pastureland prices are off 15 percent from a year ago, a somewhat smaller decline than six months ago. Rangeland in central North Dakota, western South Dakota and western Montana showed the largest decline.

About 54 percent of the bankers look for fairly stable land prices during the next 12 months, but 44 percent expect further declines. Expectations of further

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Conducted by:
Norwest Corporation, Economics Department

Credit Conditions

Qualitative questions such as 2, 6 and 17-25 show the percentage of bankers falling in each of the categories higher, same, lower, etc. Items may not add up to 100 percent due to rounding.

1. What is your current **loan-to-deposit ratio?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	51.9%	42.0%	52.0%	61.0%
Minnesota	55.3	45.0	55.0	65.0
North Dakota	48.6	38.3	48.9	57.0
South Dakota	51.0	44.3	52.0	59.5
Montana	55.9	40.3	59.7	65.0
Wisconsin	58.0	51.3	59.0	64.0
Iowa	46.3	38.0	46.0	55.0
Nebraska	56.7	47.0	58.0	67.3
Twin Cities Banks	63.0	58.0	62.5	70.0
N. Minn.-Wisc.	57.3	50.8	58.5	63.5

2. **Loan-to-deposit ratio** higher or lower than desired?

	Higher	Desired	Lower
All Ag Banks	6%	35%	58%
Minnesota	8	39	54
North Dakota	3	35	62
South Dakota	11	61	28
Montana	7	33	60
Wisconsin	5	34	61
Iowa	5	26	69
Nebraska	8	37	55
Twin Cities Banks	6	36	58
N. Minn.-Wisc.	13	33	54

3. **Typical interest rate** charged for operating loans?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	11.8%	11.5%	12.0%	12.3%
Minnesota	12.0	11.5	12.0	12.5
North Dakota	11.9	11.5	12.0	12.3
South Dakota	11.9	11.5	12.0	12.3
Montana	11.6	11.2	11.5	12.0
Wisconsin	11.5	11.0	11.6	12.0
Iowa	11.7	11.3	11.8	12.3
Nebraska	11.9	11.5	12.0	12.5
Twin Cities Banks	10.3	9.5	10.0	11.1
N. Minn.-Wisc.	11.4	11.0	11.5	12.0

4. Percentage change in **farm loan volume** during **past 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	-7.0%	-13.3%	-5.0%	0.0%
Minnesota	-7.9	-15.0	-5.0	0.0
North Dakota	-4.8	-10.0	0.0	0.0
South Dakota	-3.3	-6.8	0.0	0.0
Montana	-3.2	-5.3	0.0	0.0
Wisconsin	-1.3	-10.0	0.0	2.0
Iowa	-9.5	-15.0	-10.0	0.0
Nebraska	-8.3	-13.5	-7.5	0.0

5. Percentage change in **loan volume** during **past 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	-4.6%	-10.0%	-4.0%	0.0%
Minnesota	-3.9	-10.0	-3.0	0.0
North Dakota	-4.0	-10.0	-2.0	0.0
South Dakota	-0.7	-7.0	0.0	5.0
Montana	-4.9	-10.0	-5.3	0.0
Wisconsin	-0.9	-5.0	0.0	5.0
Iowa	-6.9	-13.8	-6.0	0.0
Nebraska	-6.8	-10.5	-8.0	0.0
Twin Cities Banks	2.9	-3.8	2.3	10.0
N. Minn.-Wisc.	0.3	-5.0	0.0	7.1

6. **Anticipated loan growth** during **next 12 months** compared with past year?

	Higher	Same	Lower
All Ag Banks	18%	55%	26%
Minnesota	19	52	29
North Dakota	24	54	22
South Dakota	21	53	26
Montana	17	63	20
Wisconsin	22	60	18
Iowa	16	58	25
Nebraska	13	52	35
Twin Cities Banks	28	47	25
N. Minn.-Wisc.	19	48	33

7. Percentage change in **bank deposits** during past 12 months?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	3.4%	0.0%	4.0%	8.0%
Minnesota	5.0	0.0	5.0	9.0
North Dakota	1.9	0.0	2.0	5.0
South Dakota	3.6	0.0	3.0	5.8
Montana	-1.1	-6.0	0.0	3.0
Wisconsin	3.3	0.0	4.0	7.0
Iowa	3.0	0.0	4.0	9.0
Nebraska	2.8	0.0	3.0	9.0
Twin Cities Banks	9.5	5.0	8.0	15.0
N. Minn.-Wisc.	6.0	1.0	5.0	10.0

8. Percentage of total **loan portfolio** that is **nonperforming?**

	Survey Average	Response by percentile 25th	50th	75th
Twin Cities Banks	1.7%	0.4%	1.5%	2.5%
N. Minn.-Wisc.	2.6	0.3	2.0	4.0

9. Percentage of **farm loans** that is **nonperforming?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	6.1%	1.0%	4.0%	9.9%
Minnesota	7.2	1.0	5.0	10.0
North Dakota	6.5	0.8	3.0	10.0
South Dakota	5.0	0.1	2.5	7.5
Montana	5.7	0.0	2.0	9.0
Wisconsin	5.0	1.0	3.0	7.0
Iowa	5.7	1.0	3.0	9.0
Nebraska	5.5	1.0	4.0	8.2

Business Conditions

10a. Current **market value** of good **cropland?** (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	$671	$400	$650	$900
Minnesota	635	500	600	800
North Dakota	366	228	300	400
South Dakota	323	200	300	450
Montana	465	250	350	625
Wisconsin	562	463	525	650
Iowa	961	800	1000	1100
Nebraska	636	438	600	800

10b. Current **market value** of **pastureland?** (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	$238	$125	$200	$300
Minnesota	241	125	200	313
North Dakota	117	89	100	128
South Dakota	138	95	138	150
Montana	151	64	95	163
Wisconsin	250	175	250	300
Iowa	332	250	300	400
Nebraska	189	99	150	300

11a. Percentage **change** in **cropland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	– 13.4%	– 20.0%	– 10.0%	– 6.5%
Minnesota	– 16.4	– 25.0	– 15.0	– 10.0
North Dakota	– 14.1	– 20.0	– 15.0	– 5.0
South Dakota	– 11.7	– 20.0	– 10.0	– 2.0
Montana	– 13.7	– 20.0	– 10.0	– 6.0
Wisconsin	– 14.2	– 20.0	– 10.0	– 7.0
Iowa	– 11.7	– 15.0	– 10.0	– 5.0
Nebraska	– 8.8	– 15.0	– 10.0	0.0

11b. Percentage **change** in **pastureland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	– 14.8%	– 20.0%	– 15.0%	– 5.0%
Minnesota	– 14.6	– 25.0	– 10.0	0.0
North Dakota	– 14.1	– 20.0	– 15.0	– 5.0
South Dakota	– 16.2	– 25.0	– 15.0	0.0
Montana	– 17.6	– 25.0	– 17.0	– 10.0
Wisconsin	– 14.0	– 20.0	– 10.0	– 2.5
Iowa	– 15.6	– 20.0	– 15.0	– 8.0
Nebraska	– 11.0	– 17.0	– 10.0	0.0

12. Anticipated trend in **land prices** during **next 12 months?**

	Increase	Stable	Decrease
All Ag Banks	2%	54%	44%
Minnesota	2	51	47
North Dakota	0	46	54
South Dakota	2	55	43
Montana	3	53	43
Wisconsin	0	61	39
Iowa	2	57	41
Nebraska	5	61	34

13. Percentage of farm borrowers having **negative cash flow** in 1986?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	17.8%	5.0%	10.0%	25.0%
Minnesota	19.7	6.0	10.0	25.0
North Dakota	24.1	10.0	20.0	35.0
South Dakota	18.0	4.0	13.5	30.0
Montana	28.7	5.0	17.5	50.0
Wisconsin	16.9	5.0	10.0	20.0
Iowa	14.1	5.0	10.0	20.0
Nebraska	12.8	5.0	10.0	20.0

14. Percentage of farm customers that went **out of business** during the **past 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	3.3%	1.0%	2.0%	5.0%
Minnesota	3.8	1.0	3.0	5.0
North Dakota	2.6	0.5	2.0	4.0
South Dakota	2.5	0.0	2.0	3.0
Montana	3.0	0.0	1.0	3.0
Wisconsin	3.0	0.5	2.0	5.0
Iowa	3.4	1.0	2.0	5.0
Nebraska	3.1	1.0	2.0	5.0

15. Percentage of farm customers likely to **discontinue operating** during the **next 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	4.0%	1.5%	3.0%	5.0%
Minnesota	4.4	1.0	4.0	5.0
North Dakota	4.0	2.0	3.0	5.0
South Dakota	3.4	1.3	2.5	5.0
Montana	4.1	1.0	3.0	5.0
Wisconsin	3.5	1.0	3.0	5.0
Iowa	3.8	2.0	3.0	5.0
Nebraska	3.7	1.0	3.0	5.0

16. Percentage of farm/ranch customers to **survive** in the **long run?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	80.0%	75.0%	80.0%	90.0%
Minnesota	79.0	71.3	80.0	90.0
North Dakota	78.3	70.0	80.0	90.0
South Dakota	79.9	75.0	80.0	90.0
Montana	79.0	60.0	85.0	90.0
Wisconsin	81.9	75.0	80.0	95.0
Iowa	81.5	75.0	82.5	92.5
Nebraska	79.5	75.0	80.0	90.0

17. Overall **economic conditions** in your area at the **present time?**

	Very Good	Good	Fair	Poor	Very Poor
All Ag Banks	0%	8%	50%	36%	7%
Minnesota	0	7	48	37	8
North Dakota	0	7	39	43	10
South Dakota	0	12	54	23	11
Montana	0	3	27	53	17
Wisconsin	0	21	52	25	2
Iowa	0	7	53	35	4
Nebraska	0	0	61	35	3
Twin Cities Banks	6	64	28	0	3
N. Minn.-Wisc.	0	15	48	31	6

Iowa - "In a leveling-off mode."

"Have seen shift of emphasis from bigness to profit."

"Majority of bank's portfolio problems are behind us. Remaining customers should be survivors in the long run."

"Starting to see a degree of stability in our farm sector."

"Better livestock prices and government programs have improved cash flow greatly."

Minnesota - "Agricultural sector will continue to deteriorate slightly."

"Economy will remain about the same."

"Rural small business will continue to struggle with decreased sales and customer base."

"Dairy people will continue to benefit from lower feed costs and slightly lower interest."

Montana - "With current government programs, most operators will be able to show positive cash flow."

"Things have stabilized to a degree."

"Difficult, but possibly improving somewhat."

"Remain about the same."

Nebraska - "Most customers with problems have already been eliminated."

"Continued tight cash flows, marginal profitability, better livestock returns."

"Still need to reduce debt to serviceable level."

"Overall our customers are better off than one year ago."

North Dakota - "Sugar beets, potatoes and dry edible beans are good. Our specialty crops are holding our area together."

"Many more problems showing up where unexpected."

"Overall, our economy is fundamentally adjusting to lower grain prices."

"Medium-size farms should be okay; large farms don't fit the farm program and thus will struggle."

South Dakota - "Most of the farmers in our immediate area are in good shape."

"Nothing on the horizon to indicate near-term recovery."

"Feel we are at or very near the bottom of the current economic cycle."

"Economy shows signs of starting to stabilize."

Wisconsin - "Nonfarm income is important to our area, and appears quite strong."

"Input expenses are down, interest rates are down and milk prices are up."

"The good dairy operator will be able to make some money."

"Generally improving, but still many problems."

Twin Cities - "Outlook is positive. Employment and consumer spending should remain strong."

"(Currently good), should remain the same with possible small improvement."

"Steady to increasing. Suburban area with commercial expansion being a major factor."

"Feel car sales will definitely slow, as well as housing starts."

Northern Minnesota/Wisconsin - "The increase in construction spending and tourism in Duluth will be offset by declining activity in the Iron Range."

"Slight improvement due to concerted effort to bring industry to area."

"Will remain stable with little growth and some possible shrinkage."

"(Outlook) fairly good. Several sizable business-expansion projects."

18. **Local economy** stronger or weaker than a year ago?

	Stronger	Same	Weaker
Twin Cities Banks	28%	64%	8%
N. Minn.-Wisc.	23	48	29

19. Are **capital expenditures** higher or lower than a year ago?

	Higher	Same	Lower
Twin Cities Banks	14%	54%	31%
N. Minn.-Wisc.	15	46	40

20. Change expected in **capital outlays** during **next six months?**

	Stronger	Same	Weaker
Twin Cities Banks	11%	47%	42%
N. Minn.-Wisc.	8	44	48

21. Are **retail sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	33%	56%	11%
N. Minn.-Wisc.	29	48	23

22. Are **automobile sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	63%	17%	20%
N. Minn.-Wisc.	43	48	9

23. Change expected in **consumer spending** during **next six months?**

	Stronger	Same	Weaker
Twin Cities Banks	25%	47%	28%
N. Minn.-Wisc.	10	52	38

24. Are **housing starts** higher or lower than a year ago?

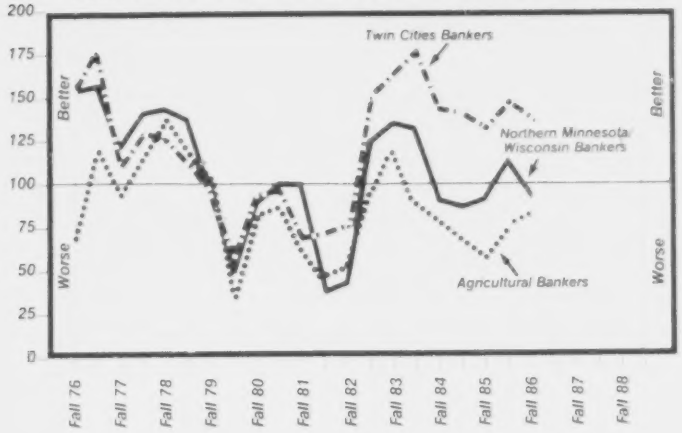
	Better	Same	Worse
Twin Cities Banks	72%	17%	11%
N. Minn.-Wisc.	23	38	40

25. Anticipated trend in **economic conditions** during the **next six months?**

	Better	Same	Worse
All Ag Banks	5%	74%	21%
Minnesota	3	68	29
North Dakota	4	74	22
South Dakota	2	82	16
Montana	3	90	7
Wisconsin	9	71	20
Iowa	9	75	16
Nebraska	2	77	21
Twin Cities Banks	11	83	6
N. Minn.-Wisc.	10	71	19

Upper Midwest Confidence Index

Composite index of current conditions and bankers' appraisal of economic prospects during the next six months



Economic Survey (continued from page 1)

declines were most pronounced in North Dakota, western South Dakota and eastern Montana.

Restructuring is progressing. Bankers indicate that progress is being made in restructuring farm operations. Farm debt is being reduced, but further reductions are needed. The adjustment process will not be finished until asset values, production costs and debt have fallen to levels that can be supported by income. Throughout this period, the federal government is playing an important role in providing income support to farmers.

On average, bankers estimate that 3.3 percent of their customers quit farming during the past 12 months; the median response was 2 percent. These figures are lower than six months ago. Their estimates ranged from a low of 1 percent or less for one-fourth of the agricultural banks to a high of at least 5 percent for another one-fourth of the banks.

Bankers predict that 4 percent of their customers may discontinue operations during the next year — also down from last spring's estimate. However, it may take at least a couple of years before the restructuring of highly leveraged farm operations is completed.

Bankers estimated that 80 percent of their current farm customers will survive in the long run. One-fourth of the banks said that at least 90 percent of their customers will survive, while another one-fourth estimated that 75 percent or less of their customers would ultimately survive. Bankers noted that some bankrupt producers are reentering agriculture as tenant farmers.

Twin Cities Economy

Relatively healthy. Seventy percent of the Twin Cities bankers rated local economic conditions good to very good — a trifle stronger than a year ago. Housing starts are at a record level, auto sales are strong and retail sales are higher than a year ago. Capital expenditures, however, are lagging.

As of October 1986, Twin Cities nonfarm wage and salary employment was 11.3 percent above the peak reached before the 1981-82 recession. This was about 1 percentage point better than the national average. However, during the past 18 months, Twin Cities employment has grown more slowly than nationally. Local employment is up 1.6 percent from a year ago. The computer industry is in a prolonged slump, with employment down 12 percent from a year ago and 19 percent from the February 1986 peak. However, job growth remains strong in construction, business services, finance, insurance and real estate.

Most Twin Cities bankers expect little change in overall economic conditions during the next 6 to 12 months. Consumer spending is projected to remain near current levels, but capital spending is forecast to decline.

Northern Minnesota-Wisconsin Economy

Mixed Appraisal. Banker's appraisals of current and future economic conditions are a bit less optimistic than last spring. However, wide variation is evident in this portion of the region.

Economic conditions are stronger than a year ago in northern Wisconsin. One-third of the bankers rated current economic conditions good, 50 percent fair and only 17 percent poor. Auto sales are stronger than a year ago, while general retail sales and capital expenditures are about the same as last year. Housing starts tend to be weaker. Most of the northern Wisconsin bankers expect economic conditions to either remain the same or possibly strengthen slightly during 1987.

Although employment in Duluth-Superior remains well below the previous peak, economic activity continues to strengthen. Tourism and construction of new manufacturing facilities have aided the area.

The Iron Range economy has weakened since our April survey. Housing starts, capital expenditures and general retail sales are lower than a year ago, but auto sales are up. About 44 percent of the Iron Range bankers characterize current conditions as fair, 44 percent poor and 12 percent very poor. Conditions are expected to weaken further during the next six months as the outlook for the taconite industry remains uncertain.

Other northeastern/north central Minnesota bankers fell in the middle of the pack. Half of the bankers rated current conditions fair, 15 percent good and 35 percent poor. Retail and auto sales are better than a year ago, but capital spending is worse. Most bankers expect either little change or slightly weaker conditions during 1987. Tourist trade is expected to rise; however, some bankers noted a loss of tourists from nearby farm states.

(continued on page 6)

Fall 1986 Regional Economic Survey (continued from page 5)

Credit conditions

Agricultural banks

Debt reduction accelerates. Total farm debt peaked in 1983, after rising every year since 1945. The decline in agricultural loans first showed up at other major private lenders; banks did not join this trend until 1985. The banks participating in this survey reported a 7 percent decline in farm loans during the last 12 months. One-fourth of the banks reported declines of 13 percent or more; another one-fourth reported no drop in farm-loan volume. The biggest declines occurred in Iowa, Minnesota, Nebraska and central North Dakota. Wisconsin banks reported the smallest declines in farm loans, averaging only 1 percent less than a year ago.

Reduced production costs, substantial declines in capital expenditures, higher livestock prices, increased government subsidies in advance of the production season, sale of assets and debt write-offs by lenders have all contributed to the decline in farm loans. Farm debt will continue to be reduced until it has fallen to a more serviceable level. Some banks report considerable progress in restructuring farm operations, while others have a way to go.

Deposits at agricultural banks were up a modest 3.4 percent from a year ago, on par with the last four surveys. One-fourth of the banks reported no growth in deposits, while another one-fourth experienced deposit growth of 8 percent or more.

The combination of rising deposits and declining loan volume pushed the average loan-to-deposit ratio 6 percentage points below last year's level to 51.9 percent — the lowest level since the 1960s. One-fourth of the banks had a ratio of 42 percent or less, while another one-fourth had a ratio of 61 percent or more. Nearly 60 percent of the bankers viewed their loan-to-deposit ratio as lower than desired.

Interest rates on farm loans at agricultural banks continued to decline, aiding the farm adjustment process. The typical interest rate charged for farm operating loans averaged 11.8 percent, down from 12.7 percent in April and 13.2 percent a year ago.

Agricultural loans made up an average of 46 percent of all loans in the portfolios of the banks that responded to this survey. On average, 6.1 percent of these agricultural loans were nonperforming — either requiring interest concessions or not accruing any interest. This was a slightly lower percentage than reported last spring. One-fourth of the banks said that at least 10 percent of their farm loans were nonperforming, while another one-fourth said no more than 1 percent of their farm loans were nonperforming.

Twin Cities banks

Weak loan demand. Total loans outstanding at Twin Cities banks are up only 2.9 percent from a year ago, one of the smallest increases reported in recent years. One-fourth of the Twin Cities bankers reported increases of at least 10 percent, while another one-fourth reported declines of at least 3.8 percent. Loan demand is expected to remain sluggish. Bank deposits averaged 9.5 percent more than a year ago.

At 63 percent, the average loan-to-deposit ratio was virtually unchanged from last April and down 2.5 percentage points from a year ago. One-fourth of the banks had a loan-to-deposit ratio of 58 percent or less, while another one-fourth had a ratio of 70 percent or more. Nearly 60 percent of the bankers viewed their ratio as lower than desired.

The typical interest rate charged for operating loans was 10.3 percent in mid November, down from 11.6 percent in April. On average, 1.7 percent of all loans at Twin Cities banks were classified as nonperforming, about the same as last spring.

Northern Minnesota/ Wisconsin banks

Anemic loan demand. Bankers reported no change in loan volume from a year ago, evidence of a weak economy. One-fourth of the banks reported at least a 5 percent drop in loans, while another one-fourth reported increases of at least 7 percent. Deposits averaged 6 percent more than a year ago.

The average loan-to-deposit ratio fell 4.7 percentage points to 57.3 percent — the lowest level since this survey began 10 years ago. Twenty-five percent of the banks have a ratio of 63 percent or more, while another 58 percent had a ratio of 51 percent or less. Bankers anticipated continued weak loan demand.

The typical interest rate charged for operating loans was 11.5 percent in November, compared with 12.5 percent in April. On average, 2.6 percent of all loans at these banks were nonperforming. This figure was 0.3 percent or less at one-fourth of the banks. Another one-fourth said at least 4 percent of their loans were nonperforming.

by Dr. Larry J. Wipf
Director of Regional Economics
Norwest Corporation

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NORWEST CORPORATION

ECONOMIC INDICATORS

CORPORATE ECONOMICS DEPARTMENT - DR. SUNG WON SOHN, CHIEF ECONOMIST MAY 6, 1987

Spring 1987 Regional Economic Survey

Highlights

- Our 22nd semi-annual survey of the region's bankers suggests that problem farm loans peaked in early 1986 and now are trending downward. However, any abrupt cut in government subsidies could reverse this trend.
- The number of farmers going out of business also is trending downward.
- Land prices are down only modestly from a year ago. Fifteen percent of the bankers said land prices were higher than a year ago, while one-third reported no change. Most bankers expect relatively stable land prices during the next 12 months.
- Government subsidies are giving most crop farmers a positive cash flow. Farm production costs are down and livestock production is profitable. Despite these positive developments, no genuine improvements in the farm sector is anticipated.
- Loan demand continues to decline at agricultural banks. Loan-to-deposit ratios are at the lowest level since the 1960s.
- The Twin Cities economy appears to be snapping out of the doldrums. Employment growth has accelerated, getting back in line with the U.S. average. The high-tech sector appears to be in the early stages of recovery.
- The Iron Range economy continues to struggle, while other parts of northern Minnesota and Wisconsin show slight improvement.
- Deposit growth has outstripped loan demand in the Twin Cities, pushing loan-to-deposit ratios to the lowest level since this survey began. Loan demand remains depressed in northeastern Minnesota.

Agricultural conditions

Subsidies maintain income. Bankers estimate that only 9 percent of their farm borrowers will experience negative cash flow this year, a substantial improvement over the fall survey estimate of 18 percent; the median response was 5 percent.

Current goverment subsidies are giving most crop farmers a positive cash flow. Livestock and dairy production are also profitable. Farm operating costs have declined and progress is being made in reducing debt. Farmers with low debt levels are making money, while some highly leveraged operators will not survive.

Sixty percent of the agricultural bankers rated overall economic conditions fair and 15 percent good, more favorable responses than last fall. But one-quarter of the bankers classified local conditions as poor.

Most bankers expect stable to slightly improved economic conditions during the next six months, while 5 percent expect further deterioration. This is a more positive appraisal than last fall, boosting the agricultural bankers' confidence index (see page 5) to the highest level since April 1983, when the PIK program was implemented. However, no genuine improvement in the farm sector is anticipated.

The longer-term outlook remains uncertain. The crop outlook is highly dependent on the level of government subsidies. Target prices for crops are scheduled to be reduced by 10 percent over a three-year period beginning with 1988 crops. Budget pressures could cut government payments even further. Any sustained run-up in interest rates would also hurt debt-ridden farmers.

Land-price decline moderates. According to the region's bankers, cropland prices are down only about 5 percent from a year ago, a considerably smaller decline than reported during the past two years. One-fourth of the bankers reported declines of 10 percent or more, while 45 percent of the bankers said land prices were either unchanged or higher than a year ago.

At present, cropland prices are estimated to average about $950 per acre in Iowa. One-fourth of the Iowa bankers valued good cropland at $800 per acre or less: another one-fourth reported sales of $1,100 per acre or more. In grain-producing areas of Minnesota and Nebraska, good cropland was pegged at about $650 per acre, with the lower quartile reporting land values in the $500 or less range and the upper quartile in the $800 plus range.

Pastureland prices are off about 8.5 percent from a year ago, also a smaller drop than in recent surveys.

Three-fourths of the bankers look for fairly stable land prices during the next 12 months; only 15 percent expect further declines. Farm-program decisions will play an important role in the future direction of land prices.

Exit rate moderating. On average, bankers estimate that 2.7 percent of their customers quit farming during the past year, down from last spring's peak. Their estimates ranged from a low of 1 percent or less for one-fourth of the agricultural banks to a high of at least 4 percent for another one-fourth of the banks.

Bankers predict the number of customers discontinuing operations during the next year will remain near

(continued on page 5)

Conducted by:
Norwest Corporation, Economics Department

Credit Conditions

Qualitative questions such as 2, 6 and 17-25 show the percentage of bankers falling in each of the categories higher, same, lower, etc. Items may not add up to 100 percent due to rounding.

1. What is your current **loan-to-deposit ratio?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	48.6%	39.2%	48.0%	59.0%
Minnesota	51.9	42.0	52.0	61.6
North Dakota	46.8	39.0	47.0	53.0
South Dakota	46.8	37.0	47.4	58.5
Montana	57.3	45.4	60.0	67.0
Wisconsin	57.2	50.0	59.0	63.9
Iowa	43.4	34.0	42.2	53.0
Nebraska	51.0	40.0	50.0	65.0
Twin Cities Banks	59.5	51.0	60.0	66.0
N. Minn.-Wisc.	53.8	48.0	58.0	63.0

2. **Loan-to-deposit ratio** higher or lower than desired?

	Higher	Desired	Lower
All Ag Banks	2%	30%	68%
Minnesota	3	30	67
North Dakota	0	34	66
South Dakota	3	39	57
Montana	7	26	67
Wisconsin	2	23	75
Iowa	2	26	72
Nebraska	0	33	67
Twin Cities Banks	0	15	85
N. Minn.-Wisc.	2	39	59

3. **Typical interest rate** charged for operating loans?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	11.4%	11.0%	11.5%	11.8%
Minnesota	11.5	11.0	11.5	12.0
North Dakota	11.7	11.3	11.5	12.0
South Dakota	11.4	11.0	11.5	12.0
Montana	11.3	10.8	11.5	11.8
Wisconsin	11.1	10.5	11.0	11.5
Iowa	11.2	10.8	11.3	11.5
Nebraska	11.3	11.0	11.4	11.8
Twin Cities Banks	10.0	9.5	10.0	10.5
N. Minn.-Wisc.	10.9	10.5	11.0	11.6

4. Percentage change in **farm loan volume** during **past 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	– 7.3%	– 15.0%	– 5.6%	0.0%
Minnesota	– 7.9	– 15.0	– 6.5	0.0
North Dakota	– 6.7	– 10.0	– 5.0	0.0
South Dakota	– 4.2	– 11.3	– 5.0	0.0
Montana	– 9.8	– 25.0	– 2.0	0.0
Wisconsin	1.3	– 4.5	0.0	0.0
Iowa	– 8.5	– 15.0	– 9.0	0.0
Nebraska	– 10.4	– 14.0	– 10.0	– 5.0

5. Percentage change in **loan volume** during **past 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	– 4.7%	– 10.0%	– 5.0%	0.0%
Minnesota	– 4.1	– 10.0	– 2.7	0.0
North Dakota	– 5.9	– 12.0	– 5.0	0.0
South Dakota	– 3.1	– 10.0	– 5.0	0.5
Montana	– 8.8	– 15.7	– 10.0	0.0
Wisconsin	0.5	– 5.5	0.0	5.0
Iowa	– 5.5	– 12.0	– 5.0	0.0
Nebraska	– 6.7	– 12.0	– 9.0	– 2.5
Twin Cities Banks	7.1	0.0	6.0	15.0
N. Minn.-Wisc.	0.6	– 5.8	0.0	8.8

6. **Anticipated loan growth** during **next 12 months** compared with past year?

	Higher	Same	Lower
All Ag Banks	29%	52%	19%
Minnesota	25	52	23
North Dakota	32	51	17
South Dakota	40	52	6
Montana	50	35	15
Wisconsin	37	51	12
Iowa	24	54	22
Nebraska	24	53	24
Twin Cities Banks	30	55	15
N. Minn.-Wisc.	29	44	27

7. Percentage change in **bank deposits** during past 12 months?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	4.0%	0.0%	4.0%	9.0%
Minnesota	4.9	0.0	5.0	8.0
North Dakota	1.8	0.0	1.5	6.0
South Dakota	5.8	0.0	5.5	10.0
Montana	– 0.3	– 5.0	0.0	3.0
Wisconsin	3.3	0.0	4.0	8.0
Iowa	3.9	0.0	4.0	10.0
Nebraska	4.6	0.0	3.5	10.0
Twin Cities Banks	13.0	7.1	11.0	18.5
N. Minn.-Wisc.	5.9	0.5	5.0	11.5

8. Percentage of **farm loans** that is **nonperforming?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	5.3%	1.0%	3.0%	7.0%
Minnesota	6.0	1.0	4.0	10.0
North Dakota	7.4	1.0	5.0	10.0
South Dakota	5.4	0.9	3.5	8.0
Montana	11.9	0.1	8.0	20.0
Wisconsin	3.3	0.6	1.6	5.0
Iowa	3.8	0.5	2.0	5.0
Nebraska	5.2	1.0	4.0	8.3

9. **Net loan charge-offs** in 1987 compared with year ago?

	Higher	Same	Lower
All Ag Banks	9%	28%	63%
Minnesota	13	27	61
North Dakota	8	45	48
South Dakota	6	50	44
Montana	15	22	63
Wisconsin	18	33	49
Iowa	3	19	78
Nebraska	9	26	65
Twin Cities Banks	6	42	52
N. Minn.-Wisc.	20	34	46

Business Conditions

10a. Current **market value** of good **cropland?** (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	$679	$400	$675	$900
Minnesota	638	500	610	800
North Dakota	372	236	290	400
South Dakota	322	200	300	400
Montana	388	288	343	500
Wisconsin	539	450	500	600
Iowa	951	800	1000	1100
Nebraska	663	494	688	800

10b. Current **market value** of **pastureland?** (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	$236	$125	$200	$300
Minnesota	227	138	200	300
North Dakota	130	100	100	128
South Dakota	149	100	125	175
Montana	104	75	84	141
Wisconsin	226	150	200	250
Iowa	328	200	300	400
Nebraska	196	110	150	275

11a. Percentage **change** in **cropland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	– 5.7%	– 10.0%	– 5.0%	0.0%
Minnesota	– 6.5	– 15.0	– 5.0	0.0
North Dakota	– 8.6	– 10.8	– 10.0	0.0
South Dakota	– 5.5	– 10.0	– 5.0	0.0
Montana	– 10.3	– 20.0	– 10.0	0.0
Wisconsin	– 6.4	– 10.0	– 7.0	0.0
Iowa	– 4.0	– 10.0	0.0	0.0
Nebraska	– 4.5	– 10.0	0.0	0.0

11b. Percentage **change** in **pastureland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	– 8.5%	– 15.0%	– 6.0%	0.0%
Minnesota	– 9.0	– 15.0	– 3.0	0.0
North Dakota	– 9.6	– 15.0	– 10.0	0.0
South Dakota	– 10.5	– 20.0	– 10.0	0.0
Montana	– 12.0	– 20.0	– 15.0	0.0
Wisconsin	– 6.2	– 10.0	– 1.0	0.0
Iowa	– 7.8	– 15.0	– 5.0	0.0
Nebraska	– 6.4	– 10.0	0.0	0.0

12. Anticipated trend in **land prices** during **next 12 months?**

	Increase	Stable	Decrease
All Ag Banks	7%	77%	15%
Minnesota	7	81	12
North Dakota	3	69	28
South Dakota	3	74	23
Montana	4	77	19
Wisconsin	4	83	13
Iowa	10	76	14
Nebraska	9	80	11

13. Percentage of farm borrowers having **negative cash flow** in 1987?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	9.2%	2.0%	5.0%	10.0%
Minnesota	9.3	2.0	5.0	10.0
North Dakota	10.0	4.3	10.0	15.0
South Dakota	11.7	5.0	10.0	15.0
Montana	19.1	10.0	15.0	28.8
Wisconsin	13.3	5.0	10.0	20.0
Iowa	7.3	2.0	5.0	10.0
Nebraska	6.4	2.0	5.0	10.0

14. Percentage of farm customers that went **out of business** during the **past 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	2.7%	1.0%	2.0%	4.0%
Minnesota	3.0	1.0	2.0	5.0
North Dakota	2.5	1.0	2.0	3.6
South Dakota	2.5	0.0	2.0	5.0
Montana	2.2	0.0	1.0	3.0
Wisconsin	2.4	1.0	2.0	3.2
Iowa	2.6	1.0	2.0	3.0
Nebraska	2.7	1.0	2.0	5.0

15. Percentage of farm customers likely to **discontinue operating** during the **next 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	2.8%	1.0%	2.0%	4.0%
Minnesota	3.3	1.0	2.0	5.0
North Dakota	2.9	1.0	2.0	4.8
South Dakota	2.5	1.0	2.0	3.8
Montana	3.9	1.0	2.0	5.0
Wisconsin	2.2	1.0	2.0	3.0
Iowa	2.4	1.0	2.0	3.0
Nebraska	2.6	1.0	2.0	5.0

16. Percentage of farm/ranch customers likely to **survive** in the **long run?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	85.6%	80.0%	90.0%	95.0%
Minnesota	84.8	80.0	90.0	95.0
North Dakota	83.5	75.0	85.0	95.0
South Dakota	85.3	75.0	90.0	95.0
Montana	82.4	80.0	80.0	90.0
Wisconsin	85.0	80.0	90.0	90.0
Iowa	87.4	80.0	90.0	95.0
Nebraska	85.9	80.0	90.0	90.0

17. Overall **economic conditions** in your area at the **present time?**

	Very Good	Good	Fair	Poor	Very Poor
All Ag Banks	1%	14%	60%	23%	2%
Minnesota	1	12	59	26	3
North Dakota	0	6	52	39	3
South Dakota	0	21	61	15	3
Montana	0	4	37	52	7
Wisconsin	0	27	57	16	0
Iowa	1	13	67	19	0
Nebraska	0	16	64	18	2
Twin Cities Banks	9	64	24	3	0
N. Minn.-Wisc.	0	17	34	41	7

Iowa - "Had our first year in four where the large majority of farm customers had positive cash flow."

"Economy has stabilized, but mostly due to the farm program. If programs are cut, problems will surface again."

"Majority of farmers have made the necessary adjustments in their operations and, with livestock prices and the government program, nearly all were profitable."

"Feel our problem-farm customers have been dealt with."

Minnesota — "We have just about bottomed out, but improvement will not be rapid."

"Ag business continues to feel squeeze, although most feel they have weathered the storm by making necessary adjustments."

"Most farmers have adjusted to current conditions and will survive."

"Highly leveraged farmers continue to struggle and failures will continue."

Montana - "Expect some improvement from higher livestock prices."

"Economy dependent on agriculture, timber, energy and mining. Expect no great improvement in any of these industries during 1987. Montana economy will remain somewhat depressed."

"Most farmers will survive as past years have eliminated highly leveraged."

Nebraska - "CRP is stabilizing real estate values and income."

"Most farms have been profitable because of two excellent production years and tremendous government payments. We are more concerned about stores around the square."

"Outlook is better than year ago, but I expect improvement to be very slow."

North Dakota - "Specialty crops have kept the economy somewhat stronger than other areas."

"Economy will stabilize but remain stagnant for the foreseeable future."

"Farmers with any amount of debt to service will continue to struggle."

"Auction sales have been going 30 percent higher than the previous year."

South Dakota - "With stronger livestock prices, outlook is optimistic. Government programs are essential for grain farms."

"The past few years, most of our grain farmers have really reduced their loans, some paying them off in full."

"Farm income heavily dependent on farm program. If subsidies are reduced, marginal operations will fail."

"Cash rents have declined making better profit margin for renters."

Wisconsin - "Farmers doing better job of management and watching capital expenditures."

"I believe that the worst is past, but recovery is going to be slow in coming."

"Feel the agricultural economy has stabilized and look for improvement in the commercial and tourism areas."

Twin Cities - "Outlook is excellent."

"Stable to up slightly."

"Strong housing demand . . . generally good economic outlook."

Northern Minnesota/Wisconsin - "See no pick up in local economy."

"(Outlook) not good, but holding steady."

"(Iron Range) economy is depressed, not expecting any relief."

"Expect gradual improvement due to new industry."

18. **Local economy** stronger or weaker than a year ago?

	Stronger	Same	Weaker
Twin Cities Banks	27%	73%	0%
N. Minn.-Wisc.	27	46	27

19. Are **capital expenditures** higher or lower than a year ago?

	Higher	Same	Lower
Twin Cities Banks	12%	64%	24%
N. Minn.-Wisc.	20	37	44

20. Change expected in **capital outlays** during **next six months?**

	Stronger	Same	Weaker
Twin Cities Banks	9%	73%	18%
N. Minn.-Wisc.	17	46	37

21. Are **retail sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	21%	76%	3%
N. Minn.-Wisc.	17	44	39

22. Are **automobile sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	0%	34%	66%
N. Minn.-Wisc.	10	61	29

23. Change expected in **consumer spending** during **next six months?**

	Stronger	Same	Weaker
Twin Cities Banks	6%	73%	21%
N. Minn.-Wisc.	22	61	17

24. Are **housing starts** higher or lower than a year ago?

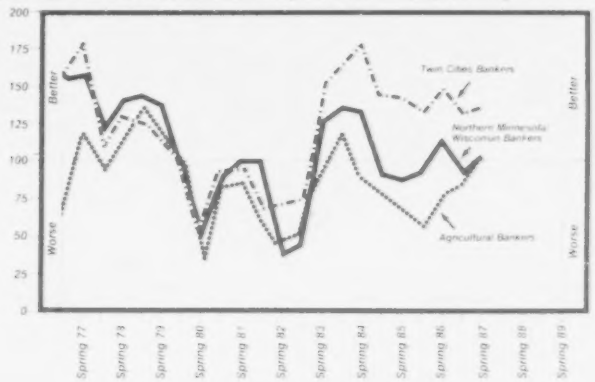
	Higher	Same	Lower
Twin Cities Banks	76%	15%	9%
N. Minn.-Wisc.	24	39	37

25. Anticipated trend in **economic conditions** during the **next six months?**

	Better	Same	Worse
All Ag Banks	17%	78%	5%
Minnesota	14	80	6
North Dakota	9	86	5
South Dakota	16	81	3
Montana	33	59	7
Wisconsin	20	76	4
Iowa	19	77	5
Nebraska	18	77	5
Twin Cities Banks	15	82	3
N. Minn.-Wisc.	29	68	2

Upper Midwest Confidence Index

Composite index of current conditions and bankers' appraisal of economic prospects during the next six months



Economic Survey

(continued from page 1)

current levels. Bankers indicate that substantial progress is being made in restructuring farm operations, but it may take a couple of years before the restructuring of highly leveraged farm operations is completed.

Bankers estimated that 85 percent of their current farm customers will survive in the long run; the median response was 90 percent. One-fourth of the banks said that at least 95 percent of their customers will survive, while another one-fourth estimated that 80 percent or less of their customers would ultimately survive.

Twin Cities Economy

Healthy despite soft spots. Three-fourths of the Twin Cities bankers rated local economic conditions good to very good — a trifle stronger than a year ago. Housing starts remain at an impressive level, but auto sales and capital expenditures are weaker than a year ago.

Most Twin Cities bankers expect little change in overall economic conditions, while only 3 percent predict weaker conditions.

Last year, Twin Cities employment grew a mere 1.6 percent, trailing the national average. Manufacturing jobs fell for the second year in a row, due mainly to a 13 percent decline in computer-related jobs in 1986. However, the Twin Cities economy appears to be snapping out of the doldrums.

Employment growth accelerated during the last two quarters. As of March 1987, nonfarm employment was 2.5 percent above a year ago, bringing the Twin Cities back in line with U.S. employment growth.

Manufacturing employment has stabilized as layoffs in the computer industry have tapered off, and the high-tech industry appears to be in the early stages of a recovery. The housing market remains strong following last year's record-setting sales of new and existing houses. Job growth is retaining its muscle in construction, business services, finance, insurance and real estate. However, high office-vacancy rates and rapid expansion of small shopping centers suggest an eventual slowdown in nonresidential construction and financial stress among small specialty retailers.

Northern Minnesota/ Wisconsin Economy

Mixed Appraisal. Bankers' appraisals of current and future economic conditions are a bit more optimistic than last fall. However, wide variation is evident in the northern region.

The Iron Range economy has weakened since our fall survey. More layoffs have occurred in the taconite industry, with little relief in sight. Housing starts, capital expenditures and retail sales are all lower than a year ago. Two-thirds of the Iron Range bankers characterize current conditions as poor and 7 percent very poor. Most bankers expect little change in the next six months.

Although employment in Duluth-Superior still is 8 percent below the previous peak, economic activity continues to strengthen. After rising 1.1 percent during the past year, employment is now 11 percent above the low registered in mid 1983. Tourism, construction and new businesses have aided the area.

Other northeastern Minnesota bankers rate current economic conditions stronger than a year ago. Sixty percent of the bankers rated current conditions fair, 12 percent good and 30 percent poor. Most bankers expect either little change or slightly stronger conditions during the next six months. Tourist trade is expected to rise, but general industry growth will be very limited.

Northern Wisconsin bankers also report that economic conditions are somewhat stronger than a year ago. One-fourth of the bankers rated current economic conditions good, 33 percent fair and 40 percent poor. Two-thirds of the bankers expect little change in overall conditions during the next six months, while the number of bankers that expect improvement outnumber the bankers that anticipate deterioration by a two-to-one margin.

Credit conditions

Agricultural banks

Problem loans have peaked. The volume of problem farm loans at commercial banks appears to have peaked in early 1986 and is now trending downward. Bankers in the seven-state region indicate that on average, 5.3 percent of their agricultual loans were nonperforming in April, down from 6.1 percent last fall, and peak of 6.6 percent a year ago. One-fourth of the banks said that at least 7 percent of their farm loans were nonperforming while another one-fourth

(continued on page 6)

(continued from page 5)

said no more than 1 percent of their farm loans were nonperforming.

This progress reflects concerted efforts by farmers and lenders to deal with loan problems. Federal loan guarantees and state interest-buydown programs have also played an important role. The volume of problem farm loans is expected to continue to decline; however, any abrupt cut in government subsidy payments could reverse the trend. Two-thirds of the bankers predicted that net charge-offs of loans during 1987 would be lower than last year; only 9 percent anticipated higher charge-offs of loans.

Debt reduction continues. The bankers participating in this survey indicated that farm loans are down 7 percent from a year ago. One-fourth of the banks reported declines at 15 percent or more, while another one-fourth reported no drop in farm-loan volume. The biggest declines occurred in Nebraska, Minnesota grain areas, Iowa and eastern Montana. South Dakota and Minnesota dairy areas experienced below-average declines, while Wisconsin bankers reported a 1 percent increase in loan volume.

Data from other sources indicate that farm nonreal-estate loans at banks are down about 25 percent from the 1984 peak. Bucking the trend, loans backed by farm real estate continue to increase at agricultural banks. Factors contributing to the ongoing reduction in farm debt include: substantial loan charge-offs by lenders; the sale of farm assets; improved livestock profits; increased government payments in advance of the production season; curtailed capital expenditures; and reduced farm operating costs resulting from declines in crop acreage and lower prices of fuel, fertilizer, etc. Financially strong borrowers have also emphasized paying off debt.

Interest rates on farm loans also continued to decline, aiding the debt-adjustment process. The typical interest rate charged for farm operating loans averaged 11.4 percent in April, down from 11.8 percent last fall and 12.7 percent a year ago.

Deposits at agricultural banks were up a modest 4 percent from a year ago, on par with the last four surveys. One-fourth of the banks reported no growth in deposits, while another one-fourth experienced deposit growth of 9 percent or more.

The combination of rising deposits and declining loan volume pushed the average loan-to-deposit ratio 4.6 percentage points below last year's level to 48.6 percent — the lowest level since the 1960s. One-fourth of the banks had a ratio of 39 percent or less, while another one-fourth had a ratio of 59 percent or more. Nea[illegible]70 percent of the bankers viewed the[illegible]oan-to-deposit ratio as lower than desired.

Twin Cities banks

Deposits outstrip loan growth. Bank deposits are up 13 percent from a year ago at Twin Cities banks. One-fourth of the banks recorded increases of 18 percent or more, while another one-fourth of the bankers reported increases of 7 percent or less.

Although loan demand was stronger than last fall, loans did not keep pace with deposit growth. Total loans outstanding are up 7.1 percent from a year ago. One-fourth of the Twin Cities banks experienced an increase of 15 percent or more, while another one-fourth reported no increase in loans.

At 59.5 percent, the average loan-to-deposit ratio was down 3.5 percentage points from last fall to the lowest level since this survey began 11 years ago. One-fourth of the banks had a loan-to-deposit ratio of 53.8 percent or less, while another one-fourth had a ratio of 66 percent or more. Eighty-five percent of the bankers viewed their ratio as lower than desired. About 30 percent of the bankers expect stronger loan demand during the next 12 months, while 55 percent expect no acceleration in loan growth. Bankers also predict that loan charge-offs during 1987 will average less than a year ago.

The typical interest rate charged for operating loans was 10 percent in mid-April, down from 10.3 percent last fall.

Northern Minnesota/ Wisconsin banks

Anemic loan demand. Bankers reported virtually no change in loan volume from a year ago, evidence of a weak economy. One-fourth of the banks had at least a 6 percent drop in loans, while another one-fourth experienced increases of at least 9 percent. Deposits averaged 6 percent more than a year ago, on par with the last couple of surveys.

The average loan-to-deposit ratio fell 8.2 percentage points below last year's level to 53.8 percent, also the lowest level since this survey began. Twenty-five percent of the banks have a ratio of 63 percent or more, while another one-fourth had a ratio of 48 percent or less. Iron Range banks had the lowest loan-to-deposit ratios. Bankers anticipate continued weak loan demand.

The typical interest rate charged for operating loans was 10.9 percent in April, compared with 11.4 percent last fall. Nearly half of the bankers expect a decline in loan charge-offs during 1987, while 20 percent of the bankers anticipate higher charge-offs.

By Dr. Larry J. Wipf
Director of Regional Economics
Norwest Corporation

- **Conducted in early April, this survey drew responses from more than 800 bankers in Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota, and Wisconsin.**

Indicators is a bimonthly publication of the Economics Department of Norwest Corporation, 1200 Peavey Bldg., Minneapolis, MN 55479. For further information contact Dr. Sung Won Sohn, Chief Economist, (612) 372-7871, Dr. Larry J. Wipf, Director of Regional Economics, (612) 372-9281, or Janet Grant, Manager of Affiliate Communications, Corporate Communications, (612) 372-6704.